

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Approval of Rate Increases)
And Revised Rate Schedules and)
Rules)
_____)

DOCKET NO. 2008-0083

ORDER APPROVING HECO'S REVISED SCHEDULES

FILED

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PUBLIC UTILITIES
COMMISSION

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Docket No. 2008-0083

ORDER APPROVING HECO'S REVISED SCHEDULES

By this Order, the commission approves the revised schedules filed by HAWAIIAN ELECTRIC COMPANY, INC. ("HECO")¹ on July 8, 2009 ("Revised Schedules"), as required in Section II of the commission's Interim Decision and Order, filed on July 2, 2009 ("Interim Decision and Order"). Specifically, the commission will allow HECO to increase its rates to such levels as will produce, in the aggregate, \$61,098,000 in additional revenues, or a 4.71% increase over revenues at current effective rates² for a normalized 2009 test year, as reflected in Exhibit A attached hereto.

¹The parties to this docket are HECO, the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex officio party pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules § 6-61-62, and the DEPARTMENT OF THE NAVY on behalf of the DEPARTMENT OF DEFENSE ("DOD") (collectively, "Parties").

²Revenues at current effective rates are revenues from base rates, revenues from the energy cost adjustment clause and revenues from the interim rate increase that went into effect on November 1, 2008 in HECO's 2007 test year rate case, Docket No. 2006-0386.

I.

Background

On July 3, 2008, HECO filed an application for approval of rate increases and revised rate schedules and rules, in which HECO requested a general rate increase of approximately \$97,011,000, or 5.2%, over revenues at current effective rates.

On May 15, 2009, the Parties filed a Stipulated Settlement Letter ("Settlement Agreement"), in which the Parties stated that they reached agreements on all but two issues in this proceeding: (1) what is the appropriate test year expense for informational advertising; and (2) what is the appropriate return on common equity for the test year.³ The Parties further agreed that the amount of the interim rate increase to which HECO is probably entitled under HRS § 269-16(d) is \$79,820,000 over revenues at current effective rates.

On May 18, 2009, HECO filed its Statement of Probable Entitlement, including a Proposed Interim Decision and Order, in which HECO requested an interim rate increase in the amount of \$79,811,000.⁴

On July 2, 2009, the commission issued its Interim Decision and Order, which approved in part and denied in part HECO's request to increase its rates on an interim basis, as set forth in HECO's Statement of Probable Entitlement. As discussed

³See Settlement Agreement at 1.

⁴HECO explained that the amount of interim increase requested in its Statement of Probable Entitlement was lower by \$9,000 than the amount in the Settlement Agreement due to the finalization of the revenue requirement run. See Statement of Probable Entitlement at 1.

in the Interim Decision and Order, the commission determined that HECO had not met its burden of proving that it was probably entitled to recover several cost items, including certain costs related to the Hawaii Clean Energy Initiative ("HCEI") that were not yet approved by the commission, but which were included in the Statement of Probable Entitlement. Thus, the commission instructed HECO to exclude those costs, and file revised schedules with the commission, together with written explanations as to the amounts removed, and any other downward adjustments made to the schedules due to the exclusion of the costs for interim relief purposes.⁵ The commission allowed the Consumer Advocate and the DOD to file comments on HECO's revised schedules within five days of the date of filing.⁶

II.

Revised Schedules

On July 8, 2009, HECO filed its Revised Schedules and explanations of certain adjustments to HECO's 2009 test year estimates, as required by the Interim Decision and Order. HECO attached as Exhibit 1 to the Revised Schedules its Results of Operations for the 2009 test year resulting from the required

⁵The commission ordered that any upward adjustments made to the revised schedules be accompanied by testimony establishing the prudence of the adjustment for purpose of allowing the commission to determine whether HECO is probably entitled to recover that amount.

⁶In addition, the commission set forth in the Interim Decision and Order, certain issues that the commission determined were not fully supported in the present record, and for which additional testimony by the Parties is needed. The commission allowed the Parties to file supplemental testimonies on these issues by July 20, 2009.

adjustments. Exhibit 1 of the Revised Schedules shows a revised proposed interim revenue increase of \$61,098,000 over revenues at current effective rates. HECO attached as Exhibit 2 to the Revised Schedules a proposed tariff sheet, and provided explanations of its adjustments in Exhibit 3 of the Revised Schedules.

On July 15, 2009, the Consumer Advocate filed comments on the Revised Schedules.⁷ The Consumer Advocate stated that it "believes that HECO's proposed adjustments were conservatively prepared, views the revised schedules as being in general compliance with the [Interim Decision and Order] and does not have any objections to HECO's filing."⁸ The Consumer Advocate, however, noted that it was not certain whether the commission meant to exclude only incremental HCEI costs from the amount of interim relief or intended the exclusion of all costs related to programs or initiatives associated with HCEI. As such, the Consumer Advocate identified, in Attachment 1 to its letter, certain additional costs to facilitate the commission's determination, if the commission intended that all HCEI-related costs are to be excluded from the amount of interim rate relief.

On July 17, 2009, HECO filed a response to the Consumer Advocate's July 15, 2009 letter, in which HECO provided additional justification regarding the adjustments made in the Revised Schedules.

⁷The DOD did not file comments on the Revised Schedules.

⁸Letter dated and filed on July 15, 2009, from the Consumer Advocate to the commission, at 1.

The commission has reviewed the Revised Schedules and subsequent filings by HECO and the Consumer Advocate. Based on that review and on the entire record herein, the commission finds HECO's adjustments in the Revised Schedules to be reasonable and in compliance with the Interim Decision and Order. The commission therefore approves the Revised Schedules, including a revenue increase of \$61,098,000, which represents a 4.71% increase over revenues at current effective rates, as reflected in Exhibit A attached hereto. Also as reflected in Exhibits A and B attached hereto, the commission approves total operating revenues for HECO of \$1,358,538,000; a rate of return of 8.45%; and an average depreciated rate base of \$1,169,423,000. The interim rate increase shall be effective immediately upon issuance of this Order.

In addition, the commission approves the proposed tariff sheet attached as Exhibit 2 to the Revised Schedules. The commission notes, however, that Exhibit 2 still references Schedule E, which the commission directed HECO to remove in the Interim Decision and Order. The commission therefore directs HECO to promptly re-file its revised tariff sheet, consistent with the terms of this Order, deleting references to Schedule E, and inserting the appropriate effective date.

III.

Orders

THE COMMISSION ORDERS:

1. HECO's Revised Schedules, filed on July 8, 2009, are approved. The interim rate relief set forth in the Revised Schedules and in Exhibits A and B attached hereto shall be effective immediately as of the date of this Order.

2. HECO shall promptly re-file its revised tariff sheet, consistent with the terms of this Order, deleting references to Schedule E, and inserting the appropriate effective date.

DONE at Honolulu, Hawaii AUG - 3 2009.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

APPROVED AS TO FORM:

Leslie H. Kondo
By
Leslie H. Kondo, Commissioner

Kaiulani Kidani Shinsato
Kaiulani Kidani Shinsato
Commission Counsel

2008-0083.cp

DOCKET NO. 2008-0083
HAWAIIAN ELECTRIC COMPANY, INC.
RESULTS OF OPERATIONS
2009
(\$ IN 000'S)

	CURRENT EFFECTIVE RATES	ADDITIONAL AMOUNT	INTERIM RATES
	-----	-----	-----
Operating Revenues:			
Electric	1,292,685	60,992	1,353,677
Other	4,140	106	4,246
Gain on Sale of Land	615	0	615
	-----	-----	-----
Total Operating Revenues	1,297,440	61,098	1,358,538
	-----	-----	-----
Operating Expenses:			
O&M:			
Fuel	438,348		438,348
Purchased Power	346,467		346,467
Production	76,322		76,322
Transmission	13,633		13,633
Distribution	29,420		29,420
Customer Accounts	12,358		12,358
Allowance for Uncollectible Accounts	1,302	0	1,302
Customer Service	5,514		5,514
Administrative & General	87,148		87,148
	-----	-----	-----
Total O&M	1,010,512	0	1,010,512
Depreciation & Amortization	81,868		81,868
Amortization of State ITC	(1,453)		(1,453)
Taxes, Other than Income Taxes	121,897	5,426	127,323
Interest - Customer Deposits	479		479
Income Taxes	19,331	21,662	40,993
	-----	-----	-----
Total Operating Expenses	1,232,634	27,088	1,259,722
	-----	-----	-----
Net Operating Income	64,806	34,010	98,816
	=====	=====	=====
Average Depreciated Rate Base	1,169,973	(550)	1,169,423
	=====	=====	=====
Rate of Return	5.54%		8.45%
	=====		=====

DOCKET NO. 2008-0083
HAWAIIAN ELECTRIC COMPANY, INC.
TAXES OTHER THAN INCOME TAXES
(\$ IN 000'S)

	PCT.	CURRENT EFFECTIVE RATES	INTERIM RATES
	-----	-----	-----
Electric Revenues		1,292,685	1,353,677
Other Revenues		4,140	4,246
		<hr/>	<hr/>
Operating Revenues		1,296,825	1,357,923
		<hr/>	<hr/>
PUBLIC SVC CO TAX	0.05885	76,242	79,837
PUC FEES	0.00500	6,478	6,783
FRANCHISE ROYALTY TAX	0.02500	32,285	33,809
		-----	-----
		115,004	120,430
		<hr/>	<hr/>
PAYROLL TAXES		6,892	6,892
		-----	-----
		121,897	127,323
		=====	=====

DOCKET NO. 2008-0083
HAWAIIAN ELECTRIC COMPANY, INC.
COMPUTATION OF INCOME TAX EXPENSE
(\$ IN 000'S)

	CURRENT EFFECTIVE RATES		INTERIM RATES
	-----		-----
Income:			
Operating Revenues	1,292,685	60,992	1,353,677
Other	4,140	106	4,246
Gain on Sale of Land	615	0	615
	-----	-----	-----
Total Income	1,297,440	61,098	1,358,538
	-----	-----	-----
Deductions:			
Fuel Oil & Purchased Power	784,815		784,815
Other O&M Expenses	225,697	0	225,697
Depreciation	81,868		81,868
Amortization of State ITC	(1,453)		(1,453)
Taxes, Other than Income Tax	121,897	5,426	127,323
Interest on Customer Deposit	479		479
	-----	-----	-----
Total Deductions	1,213,303	5,426	1,218,729
	-----	-----	-----
Tax Adjustments:			
Interest Expense	(29,399)		(29,399)
Meals & Entertainment	78		78
	-----	-----	-----
Total Tax Adjustments	(29,321)	0	(29,321)
	-----	-----	-----
Taxable Income	54,816	55,672	110,488
	=====	=====	=====
Income Tax:			
Tax Rate:	38.9100%	21,329	21,662
			42,991
Tax Benefits of Domestic Production			
Activities Deduction	1,760		1,760
Tax Effect of Deductible Preferred			
Stock Dividends	23		23
R&D Credit	215		215
	-----	-----	-----
Total Income Tax	19,331	21,662	40,993
	=====	=====	=====

DOCKET NO. 2008-0083
HAWAIIAN ELECTRIC COMPANY, INC.
AVERAGE DEPRECIATED RATE BASE
(\$ IN 000'S)

	BEGINNING BALANCE -----	YEAR BALANCE -----
Net Plant in Service	1,359,458	1,414,065
Additions:		
Fuel Oil Inventory	43,274	43,274
Materials & Supplies Inventories	16,391	15,972
Property Held for Future Use	2,331	2,331
Unamortized Net SFAS 109 Reg. Assets	57,753	62,718
Unamortized System Dev. Costs	4,684	7,936
RO Pipeline Reg Asset	-	6,366
ARO Reg Asset	10	12
	-----	-----
Total Investments in Assets	1,483,901	1,552,674
	-----	-----
Deduct:		
Unamortized CIAC	178,757	183,375
Customer Advances	947	807
Customer Deposits	8,201	8,581
Accumulated Def. Income Taxes	132,510	152,033
Unamortized ITC	30,102	28,650
Unamortized Gain on Sale	1,345	746
Pension Reg. Liability	3,051	(3,454)
OPEB Reg. Liability	777	433
	-----	-----
Total Deductions	355,690	371,171
	-----	-----
Depreciated Rate Base Before Working Cash	1,128,211 =====	1,181,503 =====
Average		1,154,858
Add: Working Cash at Current Effective Rates		15,115

Average Depreciated Rate Base - Current Effective Rates		1,169,973
Less: Change in Working Cash		(550)

Average Depreciated Rate Base - Interim Rates		1,169,423 =====

DOCKET NO. 2008-0083
HAWAIIAN ELECTRIC COMPANY, INC.
COMPUTATION OF WORKING CASH ITEMS
(\$ IN 000'S)

	Collection Lag Days -----	Payment Lag Days -----	Net Lag Days -----	Net Lag Days/365 -----
Expenses Requiring Cash:				
Fuel Oil Purchases	37	17.0	20	0.05
O&M - Labor	37	11.0	26	0.07
O&M - Non-Labor	37	33.0	4	0.01
Expenses Providing Cash:				
Revenue Taxes	37	66.0	(29)	(0.08)
Income Taxes - Curr. Eff. Rates	37	39.0	(2)	(0.01)
Income Taxes - Interim Rates	37	39.0	(2)	(0.01)
Purchased Power	37	37.0	0	-
	Current Effective Rates -----		Interim Rates -----	
	Expense -----	Working Cash -----	Expense -----	Working Cash -----
Expenses Requiring Cash:				
Fuel Oil Purchases	431,206	23,628	431,206	23,628
O&M - Labor	95,455	6,800	95,455	6,800
O&M - Non-Labor	120,700	1,323	120,700	1,323
	-----	-----	-----	-----
Subtotal	647,361		647,361	
	-----		-----	
Expenses Providing Cash:				
Revenue Taxes	115,004	(9,137)	330	(9,568)
Income Taxes - Curr. Eff. Rates	(192)	1		0
Income Taxes - Interim Rates	21,470	0	59	(118)
Purchased Power	346,467	0	949	0
Settlement Adjustment		(7,500)		(7,500)
		-----		-----
Total		15,115		14,565
		-----		-----
Change in Working Cash				(550)
				=====

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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